

UNIFORMED SERVICES UNIVERSITY OF THE HEALTH SCIENCES

DEPARTMENT OF PREVENTIVE MEDICINE AND BIOMETRICS

PMO 526

HEALTH SERVICES ADMINISTRATION

7 UP!

Christopher Keller

Vincent Moore

Tram T. Nguyen

Stephen C. Phillips

Kathryn Tierney

Piper C. M. Williams

Discuss the various methods used to allocate scarce resources in the U.S. health care system. What are the implications of these allocations (in terms of quality, outcomes, efficiency and equity) and how can the “system” improve its performance by addressing these allocative decisions?

10/15/2002

Today, no single system for financing healthcare exists in America. Rather, healthcare is financed through a myriad of different and complex methods that leave consumers confused and often without adequate healthcare at all. This system functions with no single “entity” in charge, and as such, no oversight of the allocation of scarce resources in an efficient and timely manner. Due to the complexity of allocating these resources, the current system confuses the public who cannot universally agree on the allocation of resources in order to best serve society. Health care resources are allocated based on the principles of the free market system, a system of social justice, or a combination (hybrid), of the free market or social justice systems. This paper will explore and discuss the advantages and disadvantages these three methods of allocating resources in America by the parameters of quality, outcomes, efficiency and equity. Finally, we will present our group recommendations for improving the U.S. health system, the importance of these recommendations and the impact on each of the parameters.

The free market system is a system where competitive business is encouraged, and in its purest form, would require no regulation or outside influences. This is predicated on the fact that capitalism encourages the best product at the cheapest price as competitors economically fight to sell the “best” product on the market. Consumers then benefit by purchasing an affordable, quality product or service at the lowest attainable price. As prices are kept down, consumers generally benefit by having a high standard of living and the option of saving money, making more purchases, or a combination of the two through choices allowed by system and the society as a whole.

It is this free market system that allows for the quality of healthcare to be high. Competition inspires and demands the best while keeping costs down. It would also remove much of the moral hazard seen in systems where consumers have no real idea of the costs in providing the good or service being provided. Yet one downside is that in its purest form, monopolies could be

established with the resultant loss of providing the good at the cheapest price. Once this happens, the lone supplier is able to command prices with no controls. Negative outcomes of this system include only getting “what you pay for” and that what you pay for might still not be good and will establish gradients of care based on the wealth of individuals. On a larger scale, positive outcomes include increased profit margins leading to higher quality of care through capital purchases of equipment, hiring more personnel, more training of personnel and the like. Efficiency of the market will be improved through the competition. Providers are more willing to increase their patient throughput and participation as they “compete” for clients. These providers or health care organizations, as they consolidate, network and build economic relationships, could add complexity and further contribute to consumer ignorance currently existing within the marketplace. The equity of the free market system is such that all patients are not afforded the same level of care due their wealth. Yet everyone is afforded the opportunity to receive quality of health care based on what they can afford. At the provider level, increased profit margins could allow for care of those underprivileged or in underserved populations, thereby leveling the field in terms of equitable care.

Within the social justice system, every resource is shared equitably and no one person or segment of the population is favored over the other. Said another way from our group’s discussion, “from each according to his means, to each according to his need.” One goal of this system is for the individual and the community to provide charity directed at the oppressed, suffering and severely disadvantaged within the society. Political systems that favor these tenets are increasingly failing and are looking to restructure their societies more along the lines of democratic capitalistic or socialism systems.

As the social justice system is applied to health care, everyone gets the same level of care but the quality is minimized as the lowest bidder provides the healthcare. The outcome of this system

is that everyone benefits or suffers equally. More times than not, it is more the latter than the former as there are no incentives or motivation in meeting the standard or providing quality care. The efficiency of this system is such that the government or other agent acting as a single payer provides oversight of the system. This could lead to a high level of bureaucracy where the oversight could be lacking or spotty at best. Also, as the population doesn't bear the true cost of seeking medical care and has no true understanding of the costs involved in providing the care, health care costs go up due to moral hazard.

The hybrid system is simply a combination of the free market and social justice systems. In response to concerns about the level and quality of care provided, access, and increasing costs, the hybrid system seeks to take the best of the free market and the social justice systems while minimizing or eliminating deleterious effects. The U.S. health care industry is currently a hybrid system composed of many "players" and providers.

Improvements to the U.S. health care system that this group recommends focuses on effecting change at the system level to move the current health care system along the spectrum more in line with the free market system. The group recognizes there are social justice components to our system that are worthwhile that we would not want to abandon. There never will be a 100% pure free market or social justice system. The first recommendation is that of education and changing expectations. Currently in the U.S., many have come to believe that medical care is a right while at the same time not fully understanding what the cost is to them and the society as a whole. We believe that while most individuals can agree on basic levels of care such as immunizations and preventive care, the real issues lie in how much care and the kinds of health care the society collectively will provide. Said another way, we need to dispel the myth of health care as a right and have people understand they have a right to pursue quality health care. As such, medical professionals, economists, scientists and the public officials need to network and educate the

public and build consensus on what will be provided, and, how much each individual will contribute. Effects on the four parameters are such that quality, efficiency and equity would improve as moral hazard and costs would decrease. An outcome is that the gradient of care is lessened through the population, as more resources are available for care.

The second recommendation concerns regulation. While economists agree regulation is not good for any free market, we believe the government, as regulators could regulate increased choice. An example would be requiring employers to offer direct-contribution plans to their employees. This does not restrict choices or the market, favor any entity, nor give an advantage of one competitor to another. What it seeks to do is present options to the consumer with the potential benefit of keeping prices down as the consumer hopefully makes educated decisions as they become more cognizant of the true costs of health care. This affects our current system in a favorable manner as the quality and efficiency would improve due to competition. The outcome of this is more equity as more can afford the care and the gradient of care is lessened to some degree due to lower costs.

Finally, our group would want to promote technological advances that would assist in keeping costs down. Items such as new diagnostic methods or computer software for analysis of provider markets or performance analysis of a provider are but a few examples. While the group admits some technological advances could be costly for care, we believe technology overall will have a positive impact with the health care industry. If used wisely, technology would impact the quality, efficiency, equity and ultimately outcomes by keeping prices down, providing higher quality care more efficiently and in a more equitable manner.

In conclusion, our group realizes that the U.S. health care system does not behave in a “rational” economic way. The system is chaotic, fragmented, and difficult to navigate, and for

the most part, favors those with adequate financial resources. This makes it difficult for healthcare economists to apply normal supply and demand curves to predict the future of healthcare spending. Yet, left alone with time, we would expect the health care industry to improve just due to free market principles as the industry seeks to provide affordable, quality medical care in more efficient and timely manner. The issue remains could we get to that “point” quicker, and will the public agree on the definition of need? The role of the medical professions, economists, scientists and government officials in this part should be to educate, encourage public debate, and help define “need.”